

# PERAC AUDIT REPORT



Brockton

Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2014





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

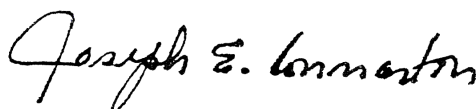
July 27, 2016

The Public Employee Retirement Administration Commission has completed an examination of the Brockton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

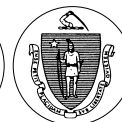
In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of Scott Henderson and Mike Pasternak who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **1. Cash/Bank Reconciliation:**

When audit field work began, the most recent reconciliation of the bank account was more than 16 months in arrears. At a meeting with the City Treasurer and Assistant Treasurer it was indicated to the auditor that excessive turnover in the Treasurer's Office led to the tardiness in the completion of the bank reconciliations for the Retirement Board. Furthermore, during this time period Retirement Board staff did not prepare their own reconciliations.

As of September 2015, the Treasurer's Office had completed all outstanding bank reconciliations.

**Recommendation:** The Board needs to monitor the status of cash reconciliations completed by the City Treasurer. The most recent reconciliation should be part of the Board member packet for the monthly meeting. If the Retirement Board does not receive completed reconciliations by the end of the following month, it should formally request the reconciliation in writing from the Treasurer's Office.

### **Board Response:**

Bank statements and reconciliations, along with monthly cashbooks will continue to be made available to the Board at each meeting when they are available. Such information has been tardy and/or incomplete in the recent past. The current email and verbal requests will be supplemented with a formal return-receipt request.

## **2. Military Service Fund:**

When an active member of the retirement system is called to active duty for the US military, an account in the Military Service Fund is set up. Both G.L. c. 32, §§ 22(4)(a) and (c) make reference to the employer contributing the amount that gets credited to the account.

The City has not been appropriating money for this purpose. The Retirement Board is simply making an accounting entry to move money out of the pension reserve fund to the military service fund.

**Recommendation:** The City (or other employing unit) must be billed for these amounts. PERAC will issue a separate appropriation letter if the Board submits a calculation of the amount owed. See PERAC Memo #39/2001 for more information.

### **Board Response:**

The Retirement Board will send PERAC the calculations of the credited amounts to the Military Service Fund and upon receipt of the appropriation letter, will bill member units for the appropriation amount.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **3. Expenses:**

During a review of the expenses of the system, it was observed that:

- Supporting documentation for expenses incurred in 2013 was unavailable. The Brockton Retirement Board stores their expense documentation in cardboard boxes. The box containing the supporting documentation was misplaced.
- Travel expenses were reimbursed for one board member without the submission of a signed travel voucher as required by 840 CMR 2.04. Additionally, many board members and staff do not provide satisfactory documentation for mileage reimbursements.

**Recommendation:** The Board needs to take additional steps to improve record retention for Board expenses. Additionally, pursuant to 840 CMR 2.04, no reimbursement should be paid without a signed travel form. Mileage reimbursements should state, at a minimum, the beginning and ending locations and the purpose of the travel.

#### **Board Response:**

The supporting documentation for expenses incurred in 2013 have since been recovered. They apparently were misplaced when two audits were being conducted at the same time.

The retirement staff will continue to make every effort to ensure travel vouchers are signed with the certification under pain and perjury that the claimed expenses are true.

The Board shall require all travel vouchers to include beginning and ending locations and purposes of travel.

### **4. Member Contributions:**

PERAC auditors sampled members' contributions to determine that the correct rates are being assigned and withheld, and that the additional 2% deduction is withheld from those members who make over \$30,000 annually and were hired after January 1, 1979. Our review indicated that 2% contributions were improperly calculated for several members from the school department. A further review with the school department indicated this was caused by a programming error with the school's payroll software potentially affecting all school department members near the \$30,000 threshold.

**Recommendation:** The System must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which discusses the additional 2% deductions. The Retirement Board needs to work with the School Department to ensure this software problem is corrected and all 2% contributions are taken properly. In addition, the System should periodically review complete payroll registers for compliance.

#### **Board Response:**

This problem is a fairly recent occurrence. The retirement system will work closely with the School Department to determine the root cause of the miscalculations and to develop a solution.



## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2014	2013	2012
<b>Net Assets Available For Benefits:</b>			
Cash	\$23,604,682	\$13,602,223	\$12,039,718
Fixed Income Securities (at book value)	13	83,134,544	82,344,056
Equities	96,578	61,329,437	56,132,944
Pooled Domestic Equity Funds	129,185,882	23,992,671	16,073,778
Pooled International Equity Funds	69,972,491	13,481,491	10,237,823
Pooled Global Equity Funds	0	52,231,572	46,146,617
Pooled Domestic Fixed Income Funds	63,943,984	3,034,448	7,500,430
Pooled International Fixed Income Funds	18,606,820	0	0
Pooled Global Fixed Income Funds	0	21,095,772	22,073,368
Pooled Alternative Investment Funds	25,330,757	69,022,340	63,351,554
Pooled Real Estate Funds	28,678,174	21,649,342	20,833,562
Pooled Domestic Balanced Funds	12,602,301	0	0
Interest Due and Accrued	212,540	866,912	922,271
Prepaid Expenses	253	253	280
Accounts Receivable	154,188	904,725	786,883
Accounts Payable	(438,120)	(938,032)	(843,483)
<b>Total</b>	<b>\$371,950,543</b>	<b>\$363,407,698</b>	<b>\$337,599,802</b>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$86,238,886	\$82,372,774	\$79,203,300
Annuity Reserve Fund	26,487,330	26,799,027	26,953,475
Pension Fund	(29,996,576)	(16,734,414)	(2,729,809)
Military Service Fund	101,760	98,615	100,975
Expense Fund	0	0	0
Pension Reserve Fund	289,119,143	270,871,696	234,071,861
<b>Total</b>	<b>\$371,950,543</b>	<b>\$363,407,698</b>	<b>\$337,599,802</b>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$75,441,270	\$27,705,953	\$10,520,923	\$95,776		\$200,206,744	\$313,970,666
Receipts	7,471,293	805,880	17,804,649	96	3,379,658	33,871,100	63,332,675
Interfund Transfers	(3,065,350)	3,066,230		5,103		(5,983)	(0)
Disbursements	(643,912)	(4,624,587)	(31,055,382)		(3,379,658)	0	(39,703,538)
Ending Balance (2012)	79,203,300	26,953,475	(2,729,809)	100,975	0	234,071,861	337,599,802
Receipts	7,804,984	788,335	18,033,168	107	3,492,905	36,801,192	66,920,691
Interfund Transfers	(4,032,939)	4,036,764		(2,467)		(1,358)	0
Disbursements	(602,572)	(4,979,546)	(32,037,773)		(3,492,905)	0	(41,112,796)
Ending Balance (2013)	82,372,774	26,799,027	(16,734,414)	98,615	0	270,871,696	363,407,698
Receipts	8,882,402	786,402	19,819,435	107	3,074,297	18,259,853	50,822,495
Interfund Transfers	(4,035,536)	4,044,903		3,038		(12,406)	0
Disbursements	(980,754)	(5,143,003)	(33,081,597)		(3,074,297)	0	(42,279,650)
Ending Balance (2014)	\$86,238,886	\$26,487,330	(\$29,996,576)	\$101,760	\$0	\$289,119,143	\$371,950,543

# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
<b>Annuity Savings Fund:</b>			
Members Deductions	\$8,323,860	\$7,377,976	\$7,089,238
Transfers from Other Systems	308,744	147,931	159,241
Member Make Up Payments and Re-deposits	143,841	193,481	139,263
Investment Income Credited to Member Accounts	<u>105,957</u>	<u>85,596</u>	<u>83,551</u>
Sub Total	<u>8,882,402</u>	<u>7,804,984</u>	<u>7,471,293</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>786,402</u>	<u>788,335</u>	<u>805,880</u>
Sub Total	<u>786,402</u>	<u>788,335</u>	<u>805,880</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	267,885	214,053	202,405
Pension Fund Appropriation	248,583	517,851	939,299
Settlement of Workers' Compensation Claims	19,289,967	17,283,264	16,639,167
Recovery of 91A Overearnings	13,000	18,000	19,500
	0	0	4,278
Sub Total	<u>19,819,435</u>	<u>18,033,168</u>	<u>17,804,649</u>
<b>Military Service Fund:</b>			
Investment Income Credited to the Military Service Fund	<u>107</u>	<u>107</u>	<u>96</u>
Sub Total	<u>107</u>	<u>107</u>	<u>96</u>
<b>Expense Fund:</b>			
Investment Income Credited to the Expense Fund	<u>3,074,297</u>	<u>3,492,905</u>	<u>3,379,658</u>
Sub Total	<u>3,074,297</u>	<u>3,492,905</u>	<u>3,379,658</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	10,207	10,369	11,335
Interest Not Refunded	0	728	279
Miscellaneous Income	196,569	5,711	149
Excess Investment Income	<u>18,053,077</u>	<u>36,784,384</u>	<u>33,859,337</u>
Sub Total	<u>18,259,853</u>	<u>36,801,192</u>	<u>33,871,100</u>
<b>Total Receipts, Net</b>	<u>\$50,822,495</u>	<u>\$66,920,691</u>	<u>\$63,332,675</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$597,585	\$326,610	\$535,978
Transfers to Other Systems	<u>383,169</u>	<u>275,962</u>	<u>107,934</u>
Sub Total	<u>980,754</u>	<u>602,572</u>	<u>643,912</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	5,115,665	4,835,296	4,624,587
Option B Refunds	<u>27,337</u>	<u>144,251</u>	<u>0</u>
Sub Total	<u>5,143,003</u>	<u>4,979,546</u>	<u>4,624,587</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	21,545,432	20,799,122	19,444,430
Survivorship Payments	2,009,371	1,894,298	1,664,743
Ordinary Disability Payments	391,229	415,429	384,805
Accidental Disability Payments	6,889,991	6,887,940	6,797,853
Accidental Death Payments	1,154,262	1,091,265	983,828
Section 101 Benefits	206,247	165,617	143,916
3 (8) (c) Reimbursements to Other Systems	885,065	784,101	696,509
State Reimbursable COLA's Paid	0	0	939,299
Sub Total	<u>33,081,597</u>	<u>32,037,773</u>	<u>31,055,382</u>
<b>Expense Fund:</b>			
Board Member Stipend	16,500	16,500	16,327
Salaries	352,757	334,769	312,152
Legal Expenses	33,907	24,155	14,535
Travel Expenses	2,558	14,726	8,725
Administrative Expenses	82,370	94,160	69,241
Actuarial Services	13,400	13,290	6,025
Education and Training	0	1,400	800
Furniture and Equipment	8,627	263	1,426
Management Fees	1,977,032	2,515,865	2,497,654
Custodial Fees	71,574	99,188	82,075
Consultant Fees	347,764	218,537	214,789
Rent Expenses	39,489	41,625	37,400
Service Contracts	65,522	57,258	60,248
Fiduciary Insurance	62,797	61,170	58,261
Depreciation			
Sub Total	<u>3,074,297</u>	<u>3,492,905</u>	<u>3,379,658</u>
<b>Total Disbursements</b>	<u>\$42,279,650</u>	<u>\$41,112,796</u>	<u>\$39,703,538</u>

# INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
<b>Investment Income Received From:</b>			
Cash	(\$795)	(\$33)	\$1,684
Fixed Income	3,294,753	4,068,449	3,679,683
Equities	2,036,475	1,354,827	1,451,923
Pooled or Mutual Funds	4,580,433	866,790	1,138,534
Commission Recapture	<u>381,265</u>	<u>264,605</u>	<u>198,144</u>
<b>Total Investment Income</b>	<u>10,292,130</u>	<u>6,554,636</u>	<u>6,469,968</u>
<b>Plus:</b>			
Realized Gains	20,276,968	6,338,354	4,533,021
Unrealized Gains	43,211,736	55,108,762	57,793,238
Interest Due and Accrued - Current Year	<u>212,540</u>	<u>866,912</u>	<u>922,271</u>
Sub Total	<u>63,701,243</u>	<u>62,314,028</u>	<u>63,248,530</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	(85,159)	(349,307)	(183,581)
Realized Loss	(13,918,340)	(14,163,057)	(16,426,626)
Unrealized Loss	(37,103,122)	(12,282,531)	(14,079,032)
Interest Due and Accrued - Prior Year	<u>(866,912)</u>	<u>(922,271)</u>	<u>(900,740)</u>
Sub Total	<u>(51,973,534)</u>	<u>(27,717,166)</u>	<u>(31,589,978)</u>
<b>Net Investment Income</b>	<u>22,019,839</u>	<u>41,151,498</u>	<u>38,128,520</u>
<b>Income Required:</b>			
Annuity Savings Fund	105,957	85,596	83,551
Annuity Reserve Fund	786,402	788,335	805,880
Military Service Fund	107	107	96
Expense Fund	<u>3,074,297</u>	<u>3,492,905</u>	<u>3,379,658</u>
<b>Total Income Required</b>	<u>3,966,763</u>	<u>4,366,942</u>	<u>4,269,184</u>
Net Investment Income	<u>22,019,839</u>	<u>41,151,498</u>	<u>38,128,520</u>
Less: Total Income Required	<u>3,966,763</u>	<u>4,366,942</u>	<u>4,269,184</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$18,053,077</u>	<u>\$36,784,556</u>	<u>\$33,859,337</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2014		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$23,604,682	6.34%
Fixed Income Securities (at book value)	13	0.0%
Equities	96,578	0.0%
Pooled Domestic Equity Funds	129,185,882	34.7%
Pooled International Equity Funds	69,972,491	18.8%
Pooled Domestic Fixed Income Funds	63,943,984	17.2%
Pooled International Fixed Income Funds	18,606,820	5.0%
Pooled Alternative Investment Funds	25,330,757	6.8%
Pooled Real Estate Funds	28,678,174	7.7%
Pooled Domestic Balanced Funds	12,602,301	3.4%
<b>Grand Total</b>	<b>\$372,021,682</b>	<b>100.0%</b>

For the year ending December 31, 2014, the rate of return for the investments of the Brockton Retirement System was 6.12%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Brockton Retirement System averaged 8.75%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Brockton Retirement System was 8.96%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Brockton Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

June 7, 2011

The Brockton Retirement Board is authorized to invest in Brandywine Global Investment Management's International Fixed Income Investment Grade Fund. To the extent that the manager uses forward currency contracts in legitimate hedging strategies associated with its fundamental strategy, the limitations of 21.01(3) shall not apply. Also, purchasing of currencies in lieu of bonds as part of fundamental investment strategy will not be considered speculative in instances where the manager sees no other means to gain access to the markets of specific countries

March 9, 2011

The Brockton Retirement Board is authorized to invest in the Mesirow Financial Real Estate Value Fund, L.P. 840 CMR 21.01(7) and 21.01(10) will not apply to investments of the partnership.

February 23, 2011

The Brockton Retirement Board is authorized to invest in the Siguler Guff Distressed Real Estate Opportunities Fund. 840 CMR 21.01(7) and 21.01(10) will not apply to investments of the partnership

February 23, 2011

The Brockton Retirement Board is authorized to invest in Landmark Partners Real Estate Fund VI. 840 CMR 21.01(7) and 21.01(10) will not apply to investments of the partnership

February 8, 2011

The Brockton Retirement Board is authorized to transition funds out of its existing Delaware Investments DPT International Fixed Income Fund (sub-advised by Mondrian Investment Partners) into the Mondrian International Fixed Income Fund, L.P. The result of this change, which follows some corporate restructuring moves, is that the Board's money will be managed by the same portfolio management team, with the same strategy, at a slightly lower fee.

June 10, 2010

Notwithstanding the provisions of the statute or regulations of the Public Employee Retirement Administration Commission to the contrary, including the provisions of 840 CMR 21.01(2), (3), (4), and (5), the Brockton Retirement Board is hereby granted an exemption from restrictions on investment and may invest a portion of the funds of the Brockton Retirement System in the fund known as the Wellington Diversified Inflation Hedges Fund.

July 16, 2009

In accordance with Investment Guideline 99-2, the Brockton Retirement Board is authorized to modify its international fixed income mandate with Mondrian Investment Partners by transferring assets from the Delaware Investments DPT International Fixed Income Fund to the Mondrian Global Fixed Income Fund. As a result of this transfer, the Board will have its funds managed by essentially the same investment team it hired in 1999, with the same strategy, and with a slightly reduced management fee.



## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

April 27, 2009

In accordance with Investment Guideline 99-3, the Brockton Retirement Board is authorized to invest in Ascent Venture Partners V. The Board has been a satisfied investor in Ascent Ventures' three predecessor partnerships and has submitted the required regulatory documents.

December 17, 2007

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Brockton Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO Non-US Partnership Fund III, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

December 8, 2003

In accordance with PERAC Investment Guideline 99-3, the Brockton Retirement Board may invest in Ascent Venture Partners IV, L.P. The board has had a satisfactory relationship with Ascent Venture Partners through investment in the firm's two prior partnerships. The Board seeks to maintain its targeted level of investment in venture capital as two of its current investments in this asset class are in the process of returning capital.

August 13, 2002

Notwithstanding the provisions of the Public Employee Retirement Administration Commission Regulations, the Brockton Retirement Board may invest funds of the Brockton Contributory Retirement System (the "System") with the real estate investment fund known as Realty Associates Fund VI Corporation (the "Fund"), and while the assets of the System are so invested,

- i. the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System's interest in the Fund but not any of the underlying assets of the Fund or the operating partnership in which the Fund is invested (the "OP"); provided that, at all times, the Fund and the OP qualify as "venture capital operating companies" or "real estate operating companies" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder, or the assets of the Fund and the OP otherwise would not be treated as plan assets under ERISA; and
- ii. the limitation set forth in 840 CMR 19.01(6) shall be deemed satisfied if no single investment of the OP, valued at cost, exceeds 20% of the capital commitments to the Fund and the OP.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

November 15, 2001

1.Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Brockton Retirement Board's request as it applies to 840 CMR 17.04(1)(c) is approved.

2.Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Brockton Retirement Board's request as it applies to 840 CMR 17.04(6).

3.Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Brockton Retirement Board's request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

4.Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:“ Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for nonspeculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

ERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

Please be advised that this Supplemental Regulation as it exempts the Brockton Retirement Board from PERAC Regulations, only does so in relation to the INVESCO Funds that are the subject of the Supplementary Regulation. In all other circumstances, these Regulations apply to the Brockton Retirement Board.

The Supplementary Regulations approved herein are applicable only to the Brockton Retirement System's investment in the INVESCO Non-U.S. Partnership Fund III. Exemption from the regulations pertaining to prohibited investments is limited to the purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limiting currency risk of the funds where a commitment to a fund was made in a non-U.S. currency.

### March 15, 2000

In accordance with PERAC Investment Guideline 99-3, the Brockton Retirement Board may invest in Ascent Venture Partners III, L.P. The board has had a positive relationship with the vendor in its investment in Ascent Venture Partners II, L.P. and has submitted the required documentation relative to this new investment

A complete list of these regulations is available upon written request and can be accessed via the internet at the following address: <http://www.mass.gov/perac/investsup/Brocktonintsup.html>

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Brockton Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$797.64 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$797.64 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Brockton Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### Creditable Service

August 1, 2011

A member whose entire service is 20+ hours a week since July 1, 1991 shall receive one year of creditable service for each year worked 20+ hours per week.

An employee who becomes a member and who has previously rendered ineligible service may purchase that service back on a prorata basis. Such calculation of creditable service shall be apportioned based on the full-time equivalency of the position.

A member employed 20+ hours a week whose service becomes less than 20 hours a week shall receive credit for his/her service on a pro-rated basis as it relates to the full-time position.

Any member who voluntarily resigns from a qualified position and returns to an ineligible position, shall remain in the retirement system. However, said creditable service will be prorated and calculated as above based on the eligible position from which they resigned.

June 20, 1991

Board will grant full full-time creditable service to all employees working twenty or more hours per week effective July 1, 1991.

#### Membership

August 1, 2011

Any member unit employees who work 20 hours or more a week are required to become members of the City of Brockton Retirement System.

Member unit employees whose regular work schedule is less than 20 hours per week are not eligible for membership.

#### Travel Regulations

The Brockton Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Brockton>.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Heidi A. Chuckran

Appointed Member: William R. Farmer, Chairman      Term Expires : 12/31/2016

Elected Member: William E. Parlow      Term Expires: 6/30/2018

Elected Member: Edward P. Mack      Term Expires: 6/30/2019

Appointed Member: Matthew J. McLaughlin      Until a successor is appointed

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Buck Consultants as of January 1, 2014.

The actuarial liability for active members was	\$197,628,996
The actuarial liability for retired members was	<u>331,897,221</u>
The total actuarial liability was	\$529,526,217
System assets as of that date were	<u>355,691,316</u>
The unfunded actuarial liability was	<u><u>\$173,834,901</u></u>
 The ratio of system's assets to total actuarial liability was	 67.2%
As of that date the total covered employee payroll was	\$73,756,821

The normal cost for employees on that date was 8.70% of payroll

The normal cost for the employer was 6.88% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum  
 Rate of Salary Increase: Varies by Group & Service

### SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2014

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2014	\$355,691,316	\$529,526,217	\$173,834,901	67.2%	\$73,756,821	235.7%
1/1/2013	\$332,880,082	\$519,017,932	\$186,137,850	64.1%	\$76,378,221	243.7%
1/1/2011	\$355,848,807	\$492,456,512	\$136,607,705	72.3%	\$74,417,105	183.6%
1/1/2010	\$363,860,964	\$477,470,673	\$113,609,709	76.2%	\$75,432,689	150.6%
1/1/2008	\$392,205,582	\$433,698,684	\$41,493,102	90.4%	\$74,357,273	55.8%
1/1/2007	\$375,863,460	\$421,210,968	\$45,347,508	89.2%	\$72,260,162	62.8%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Retirement in Past Years</b>										
Superannuation	37	39	48	48	64	52	30	9	50	6
Ordinary Disability	2	0	1	1	0	2	0	0	0	0
Accidental Disability	3	6	6	9	0	6	6	1	0	2
<b>Total Retirements</b>	<b>42</b>	<b>45</b>	<b>55</b>	<b>58</b>	<b>64</b>	<b>60</b>	<b>36</b>	<b>10</b>	<b>50</b>	<b>8</b>
Total Retirees, Beneficiaries and Survivors	1,223	1,282	1,300	1,320	1,275	1,343	1,322	1,274	1,275	1,287
Total Active Members	1,919	1,911	1,889	1,817	1,718	1,679	1,699	1,717	1,821	1,827
<b>Pension Payments</b>										
Superannuation	\$14,413,927	\$15,264,544	\$15,919,655	\$16,818,762	\$17,904,843	\$18,751,235	\$19,271,685	\$19,444,430	\$20,799,122	\$21,545,432
Survivor/Beneficiary Payments	1,108,494	1,209,414	1,065,198	1,324,959	1,493,571	1,551,731	1,565,071	1,664,743	1,894,298	2,009,371
Ordinary Disability	339,475	321,733	340,597	362,506	347,833	349,393	404,861	384,805	415,429	391,229
Accidental Disability	5,383,033	5,672,024	6,251,052	6,558,207	6,797,918	7,038,658	6,936,606	6,797,853	6,887,940	6,889,991
Other	1,422,585	1,707,386	2,188,471	1,712,257	1,710,323	1,892,597	2,272,145	2,763,551	2,040,983	2,245,574
<b>Total Payments for Year</b>	<b>\$22,667,514</b>	<b>\$24,175,101</b>	<b>\$25,764,973</b>	<b>\$26,776,691</b>	<b>\$28,254,488</b>	<b>\$29,583,614</b>	<b>\$30,450,368</b>	<b>\$31,055,382</b>	<b>\$32,037,772</b>	<b>\$33,081,597</b>



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 7 – LEASED PREMISES

The Brockton Retirement Board leases approximately 2200 square feet of space for its offices located at 15 Christy Drive, Brockton, MA. They signed an extension of their prior contract for a one year period (\$17.00 per sq ft) which will expire April 30, 2016. The landlord is Mihos Realty ,LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2013:

<u>For the year ending:</u>	<u>Annual Rent</u>
2013	\$37,400.00
2014	\$37,400.00
2015	\$37,400.00

Total future minimum lease payments required:   \$12,466.67





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

November 21, 2017

William Farmer, Chairman  
Brockton Retirement System  
1322 Belmont Street, Suite 101  
Brockton, MA 02301

**REFERENCE:** Report of the Examination of the Brockton Retirement System for the three-year period from January 1, 2012 to December 31, 2014.

Dear Chairman Farmer:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Brockton Retirement System for the most recent period referenced above. We conduct these visits as a regular part of the oversight process. They are designed to ensure the timely implementation of corrective action for the recommendations cited in that report. The examination addressed four specific findings and recommendations included in the audit report for the period referenced above. The results are as follows:

***1. The Audit Report cited a finding that the cash/bank reconciliation was more than 16 months in arrears when audit field work began. Excessive turnover in the Treasurer's office led to the tardiness in the completion of the bank reconciliations for the Retirement Board. Furthermore, the Retirement Board staff did not prepare their own reconciliations.***

**Follow-up Result:** We reviewed the most recently prepared cash reconciliation as of February 28, 2017. This indicated that the cash reconciliations were prepared timely as of field work on April 7, 2017. However, there were no signatures or dates on the cash reconciliations to show completion by the preparer or the reviewer. The cash reconciliations are still prepared by the Treasurer's office and the Retirement Board staff does not prepare their own reconciliations.



November 21, 2017

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We noted there are two Bank of America accounts: one for operating expenses and the other for retirees' payroll. We reviewed four monthly cash reconciliations December 31, 2016, February 28, 2017, February 28, 2016, and November 30, 2016. (Note- The February 28, 2017 General Ledger was not closed out at time of fieldwork and, therefore, not used in audit work.)

The retirees payroll account balances per cash reconciliations did not match the monthly General Ledger balances for February 28, 2016 and November 30, 2016. This is because the monthly transactions are not recorded to the General Ledger during the year, but are posted in total at year end as "To update payroll account statements for 2016 Balance".

We also found that the February 28, 2016 and November 30, 2016 operating expenses account Book balances per the cash reconciliations did not tie to the monthly General Ledgers. The December 31, 2016 operating expenses account Book balance did reconcile to the General Ledger.

We noted several stale items listed on the cash reconciliations. There were two reconciling items dating back to 2010 listed on the February 28, 2017 cash reconciliation for the operating expenses account. We noted there were outstanding checks from 2011 on the February 28, 2017 cash reconciliation for the operating expenses account and outstanding checks from 2012 for the payroll account. This finding is not resolved.

***2. The Audit Report cited a finding that the City has not been appropriating money for members called to active duty to the Military Service Fund.***

**Follow-up Result:** The Retirement Board provided a Military Service Credit worksheet showing the activity for the year ending December 31, 2016. This year-end balance did not tie out to the General Ledger at 12/31/2016 or at 12/31/2015. This finding is not resolved.

***3. The Audit Report cited a finding that Travel Expenses were reimbursed without a signed travel form pursuant to 840 CMR 2.04, and many board members and staff do not provide satisfactory documentation for mileage reimbursements.***

**Follow-up Result:** All (seven) travel expenses were examined from 2016 and three expenses were examined from 2015. Out of the 10 sampled, only four had signed travel reimbursement forms and two had satisfactory documentation. Meals were reimbursed to board members without itemizations; for instance, just the name of the restaurant and the amount of the purchase was submitted. Mileage was reimbursed without a mileage log or map providing substantiation of miles driven. This finding is not resolved.

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**4. The Audit Report cited a finding that 2% contributions were improperly calculated for several members from the school department. A review with the school department indicated this was caused by a programming error with the school's payroll software potentially affecting all school department members near the \$30,000 threshold.**

**Follow-up Result:** Per discussion with the Executive Director, the payroll software has not been updated since the finding. No changes have been implemented.

A sample review of the current payroll revealed two errors in the calculation of the additional 2% deductions. One active member earned more than \$30,000 per year and did not have any 2% deductions taken from their pay, and another active member did not earn over \$30,000 per year but did have the 2% deductions taken. This finding is not resolved.

The Commission asks the Brockton Retirement System to review and correct the deficiencies cited in the most recent examination of the system. PERAC auditors will conduct an additional follow-up visit in 60 days to assess the status of these unresolved issues.

We anticipate your continued cooperation in resolving this important matter.

Sincerely,

  
Joseph E. Connarton  
Executive Director

JEC/tal

cc: Brockton Retirement Board Members